

Achieving better logistics to ensure supply chain connectivity

*PECC General Meeting
Thailand, 3 November 2022*

*Sherry Stephenson
PECC Services Network*

The views expressed here are those of the author and do not necessarily reflect those of the PECC nor its members.

Why are logistics important?

- **Logistics : the oil without which the wheels of international trade cannot turn**
- **Maritime / cargo shipping moves 90 % of the goods traded in the world**
- **Air cargo represents around 40 % on average of the space of passenger planes, representing 35-40% of the value of world trade (\$6 trillion)**
- **Express delivery (DHL delivers over 1.5 billion packages annually; UPS 22 million packages a day and Fedex 18 million packages a day)**
- **Over 800 active ports around the world, with 50 main hubs accounting for the majority of world trade; over 5,400 container ships on the sea in 2021**
- **Over 1,200 international airports in the world**

Why are logistics important?



If logistics-related services perform, your economy is more resilient, flexible and responsive to economic shock*



Improving two sectors of logistics-related services will increase global GDP up to six times more than the world wide elimination of tariffs**



Better logistics performance ⇒ Faster GDP growth ⇒ Improved services competitiveness ⇒ Better supply chain connectivity*



*As emphasized in [“Services to Support the Movement of Essential Goods”](#) Background Paper on Logistics Services

** [As reported in Enabling Trade Valuing Growth Opportunities, WEF with WB](#)



BETTER LOGISTICS PERFORMANCE HAS IMPORTANT IMPACTS ON REGIONAL TRADE



Cost and Time



Environment

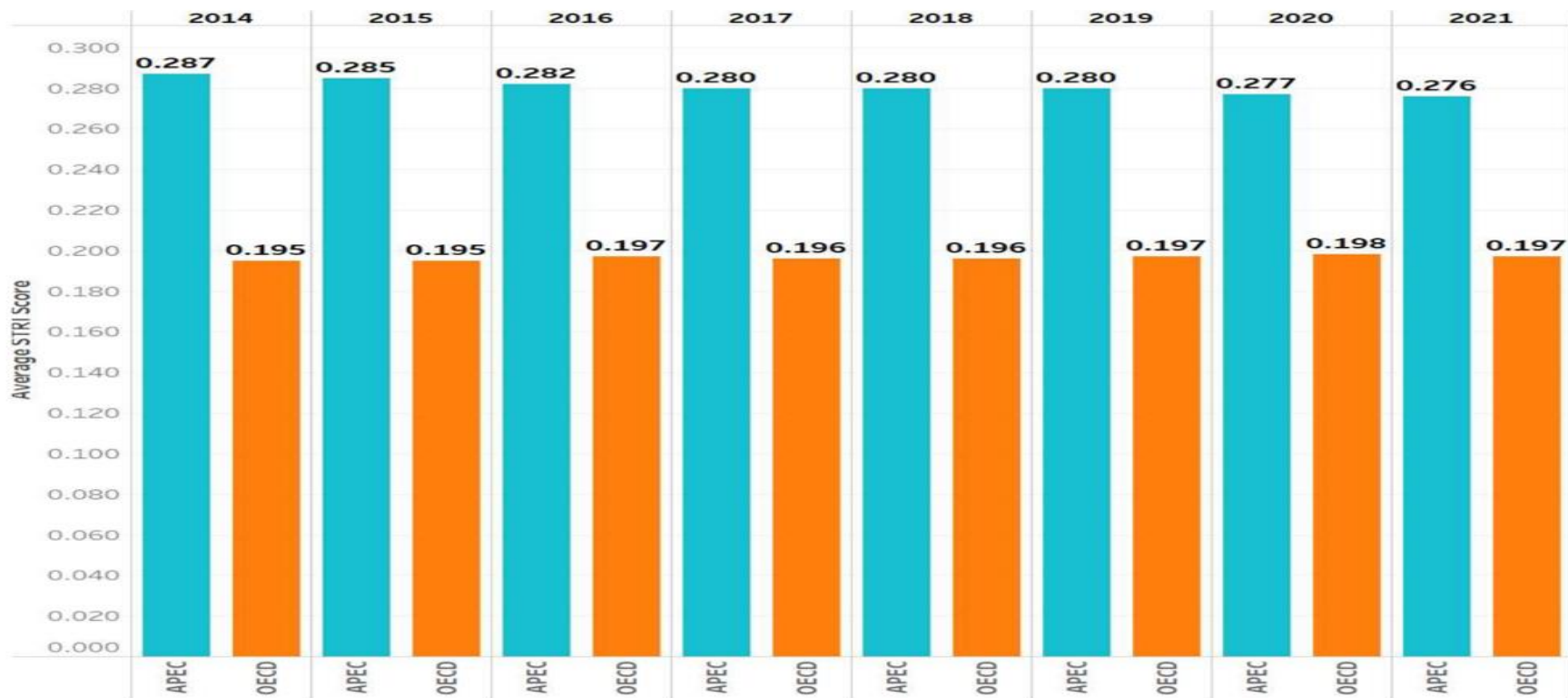


Resilience



BUT SOME LOGISTICS SERVICES ARE STILL QUITE RESTRICTED

Comparison of the average STRI for logistics-related services for the APEC and OECD economies between 2014 and 2021



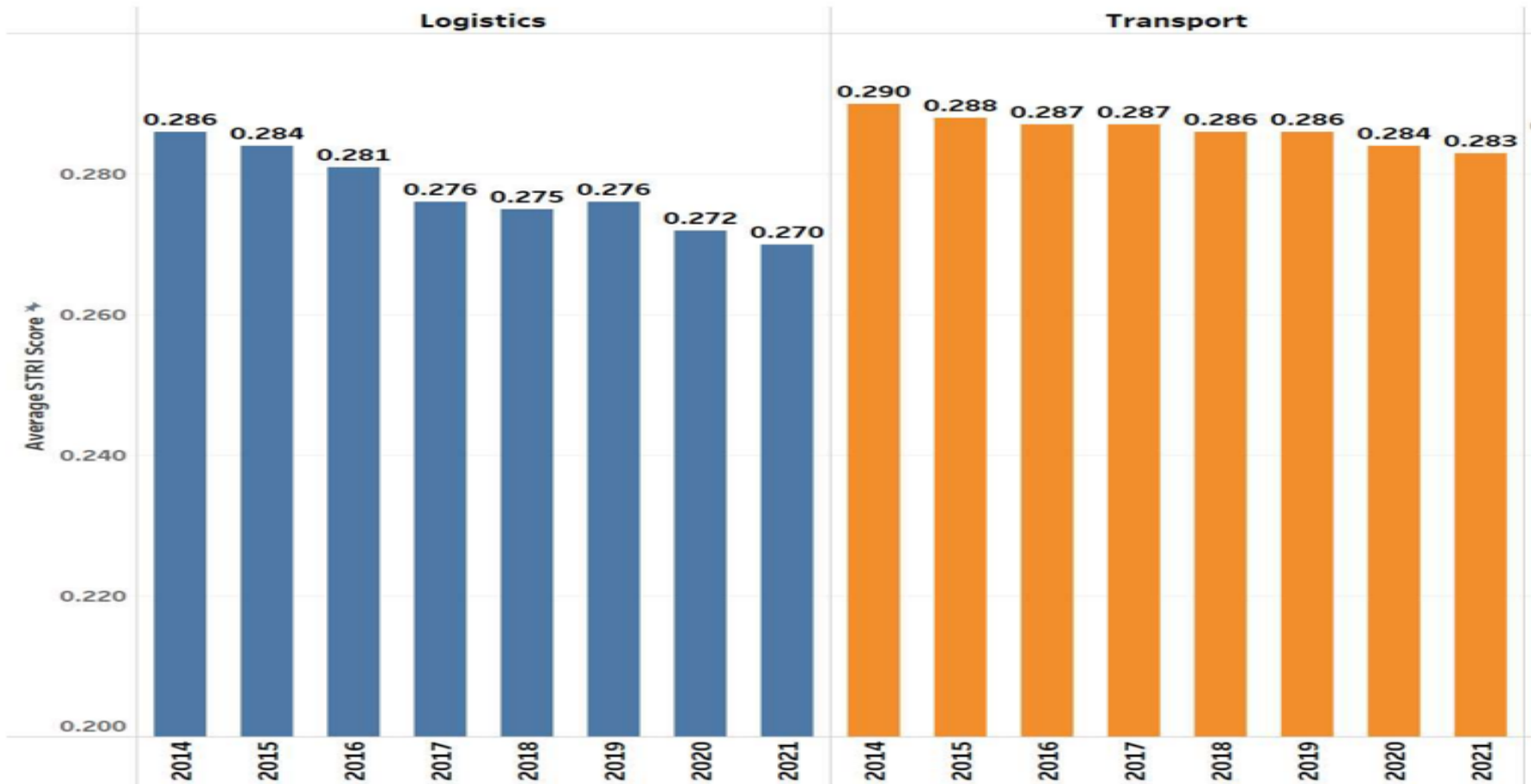
Source: Authors' calculations based on the information in the OECD STRI database.

Source: "Services to Support the Movement of Essential Goods" Background Paper on Logistics Services



LEVELS OF OPENNESS OF CORE LOGISTICS & TRANSPORT SECTORS IN APEC

Average STRI score for 16 APEC economies between 2014 and 2021



Source: Authors' calculations based on the information in the OECD STRI database.

Services to Support the Movement of Essential Goods” Background Paper on Logistics Services

Prior to the pandemic: “just in time” delivery model

Despite the relatively higher costs in transport and core logistics services, these were functioning quite well prior to the Covid pandemic.

Logistics firms based their output on an optimization, cost-cutting model of “JUST IN TIME” delivery, with minimum levels of stock piling.

This served to increase participation in supply chains around the world along with deeper vertical integration and globalization

- **Positive trend toward greater connectivity as a result.**

This was all altered by the pandemic. .

What happened to logistics during the Covid pandemic?

---BOTTLENECKS AT MAJOR PORTS AND AIRPORTS FOR CUSTOMS, UNLOADING, AND FREIGHT FORWARDING

--INABILITY OF SHIP AND AIR CREWS TO TRANSIT BETWEEN DESTINATIONS

--INCREASED RESTRICTIONS ON IMPORTS AND EXPORTS (BANS)

--DELAYS IN SHIPMENTS & DELIVERIES

--STALLED PRODUCTION FROM LOCKDOWNS

== NEGATIVE IMPACTS ON SUPPLY CHAIN OPERATIONS RESULTING IN INCREASED COSTS & HIGHER PRICES

Exp: Cost for a standard container shipment rose by 500% between early 2020 and mid-2021



Views of the region on what caused the disruptions to logistics

OF THE RESPONDENTS TO THE PECC SOTR SURVEY, THE MOST IMPORTANT FACTORS WERE FELT TO BE :

1. **Capacity limitations on port operations and logistics constraints (61.5%)**
 2. **Limitations on supply side responses to increased demand (61%)**
 3. **Rapid increase in demand for consumer goods (29%)**
 4. **Shortages of air and maritime crew (27%)**
- ***Overall, the perception throughout the Asia Pacific region was that supply side limitations and capacity issues in ports and logistics operations had the biggest impact on supply chain disruptions.***

How did APEC respond to these challenges that disrupted trade?

APEC TOOK THE LEAD IN RECOGNIZING THE IMPORTANCE OF ESSENTIAL SERVICES AND LOGISTICS IN MOVING ESSENTIAL GOODS

--APEC MRT LAUNCHED MAJOR WORK ON LOGISTICS IN 2021

https://www.apec.org/meeting-papers/sectoral-ministerial-meetings/trade/2021_mrt/annex-2

Progress of project to date:

- 1. APEC Logistics Workshop held : March 2022**
- 2. Study on Logistics Services published : September 2022**
- 3. APEC agreed definition of Logistics-related Services adopted : May 2022**
(Note: This agreement is a first by any grouping working on trade)
- 4. Public-Private Dialogue on Logistics Services SOM3 : August 2022**

Future work:

- 5. Development of a Logistics-related Services Observatory**
- 6. Drafting of a set of Non-binding Guidelines or Recommendations on Treatment of Logistics Services during a Crisis for consideration**



Report on Logistics Services published by APEC Group on Services

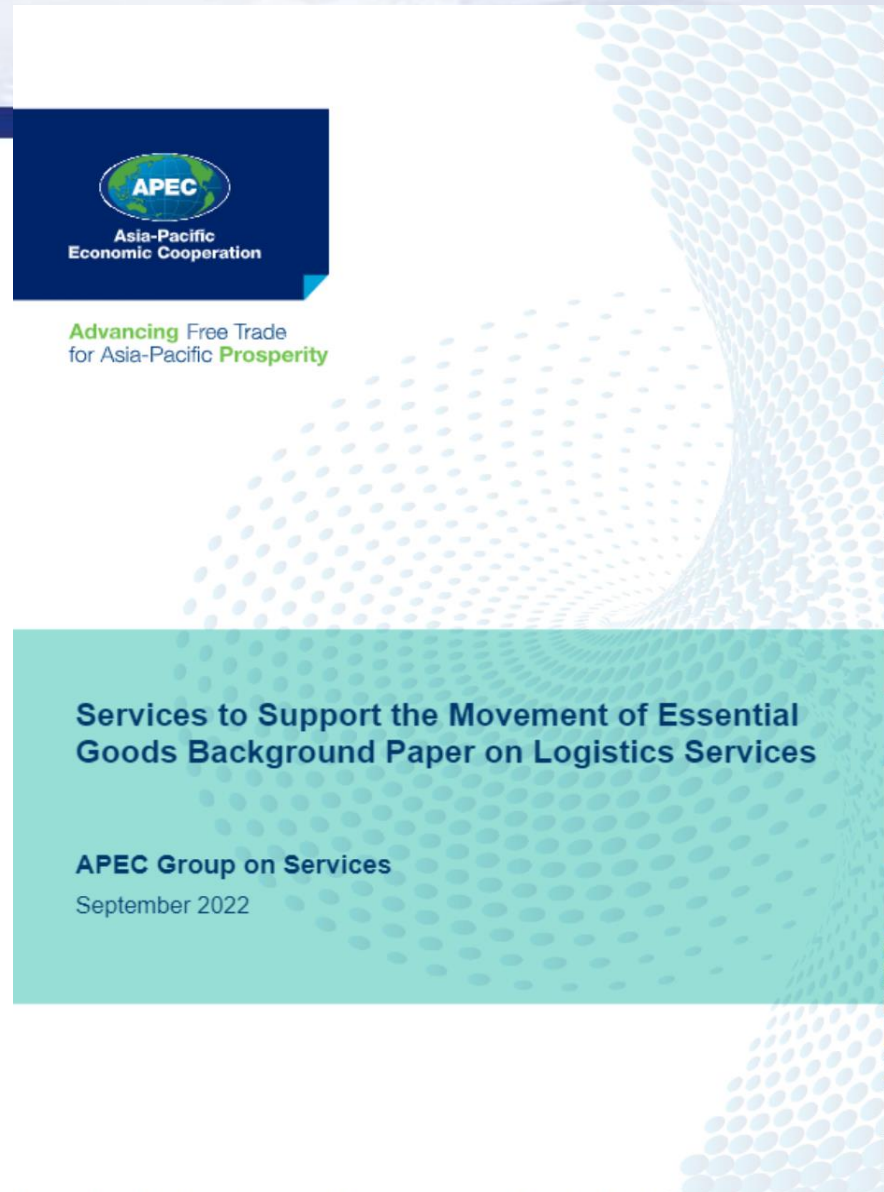
September 2022

Available at:

https://www.apec.org/docs/default-source/publications/2022/9/services-to-support-the-movement-of-essential-goods-background-paper-on-logistics-services/222_gos_services-to-support-the-movement-of-essential-goods-background-paper-on-logistics-services.pdf?sfvrsn=f096afca_2



Office of Economic Cooperation and Coordination



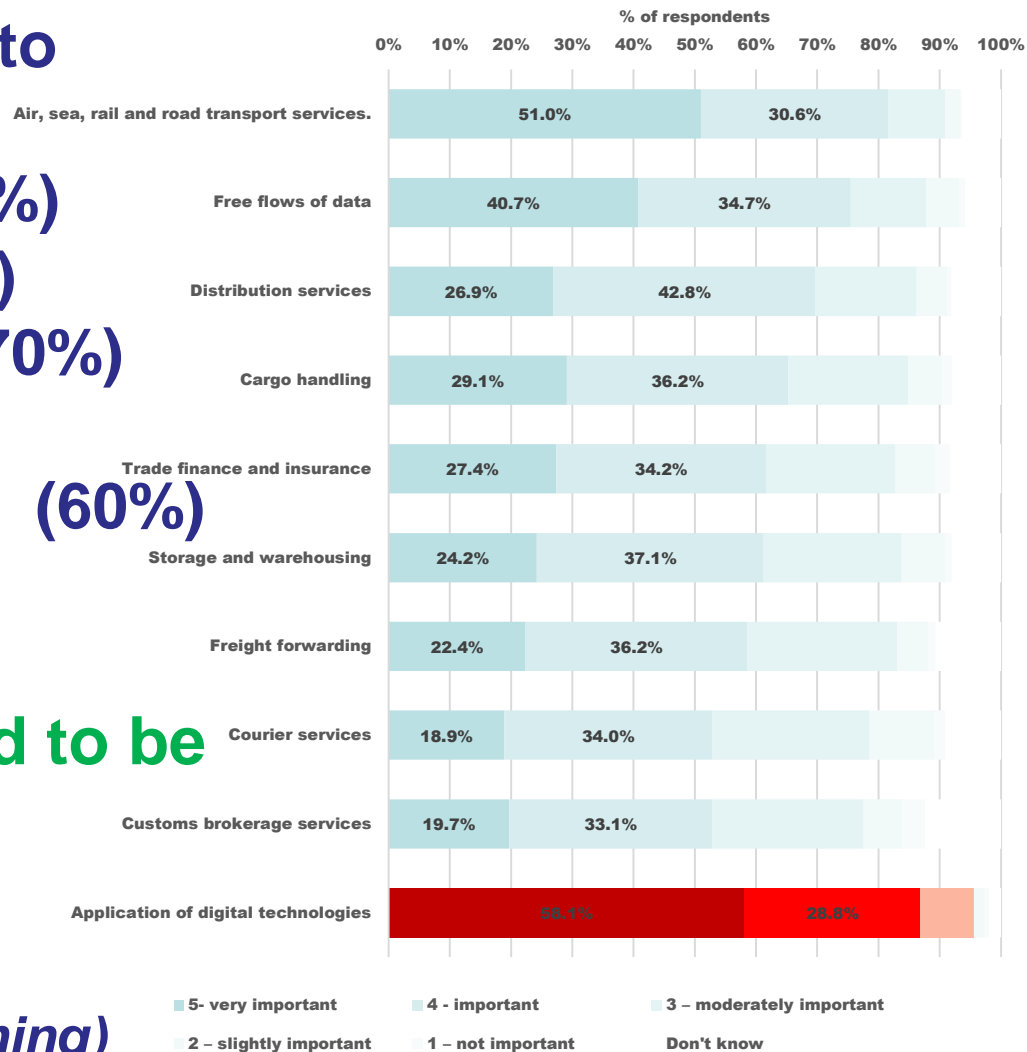
Regional views on the importance of improving essential services to facilitate more resilient supply chains (SOTR)

Most important services to improve:

- Transport services (80%)
- Free flow of data (78%)
- Distribution services (70%)
- Cargo handling (65%)
- Storage & warehousing (60%)

Application of digital technologies considered to be the most critical (85%)

From the PECC State of the Region Report 2022 (forthcoming)



Going forward: the regional and world contexts are now different

- **GREATER UNCERTAINTY; HIGHER COSTS**
- **WORLDWIDE INFLATIONARY PRESSURES, MONETARY TIGHTENING AND CURRENCY ALIGNMENTS**
- **HEIGHTENED POLITICAL TENSIONS**
- **TIGHTER LABOR FORCE IN MANY ECONOMIES**
 - It is most likely not possible to go back to the pre-pandemic “normal”**

How can / should logistics services operators and governments adapt to these challenges?

What does industry recommend ?

Recommendations from the PPD in Chiang Mai to **make supply chains more flexible and resilient (August 2022)**

- 1. Improved regulation of logistics services, especially transport**
- 2. Adoption of a holistic approach towards coordinating policies across all logistics services since they are inter-linked and can only perform as well as the weakest link**
- 3. Firms must make faster decisions as circumstances change quickly during times of crisis. For this, they need access to better and more accessible information as they switch their business model to “just in case”**
- 4. Better coordination of policies across the region with more sharing of data and information**
- 5. Greater liberalization of logistics services**

All industry representatives felt that APEC should continue to prioritize work on logistics

What do respondents in the SOTR Survey recommend ?

ENCOURAGE APEC TO PUT IN PLACE AN INITIATIVE TO IMPROVE THE DELIVERY OF LOGISTICS SERVICES IN THE REGION (This came around 6th out of 20 competing issues in terms of top priorities)

RECOMMEND FOR APEC TO DEVELOP A WORK PROGRAMME ON SUPPLY CHAINS OVER THE COMING 5 YEARS (Second only to Digital Trade as being the most important area for APEC economies to focus on in the near future).

What will the future look like for logistics

NOT CLEAR – But we can make educated guesses

- 1) Possibility of “onshoring” is unlikely but there will be changes**
- 2) Future supply chain relationships will look different
Some partnerships have been dissolved and will be reconstructed differently**
- 3) Greater digitization will certainly be applied to logistics activities**
- 4) Attention will continue to be focused on logistics in a more intensive way than before as their critical importance has become so evident**

Questions to ponder:

- What will be the next major crisis that will challenge logistics services and regional trade in the APEC region and world economy?
- Will we be better prepared?

THANK YOU!

Sherry Stephenson

sherry.Stephenson@gmail.com

The views expressed here are those of the author and do not necessarily reflect those of the PECC nor its members.